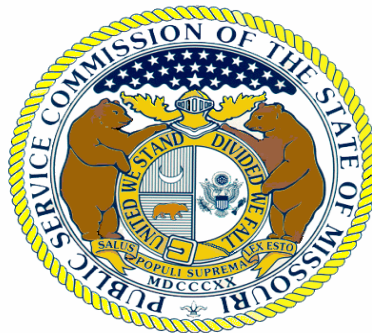


THE CHALLENGE AHEAD: A POLICYMAKER'S VIEW

Terry M. Jarrett
Commissioner, MoPSC

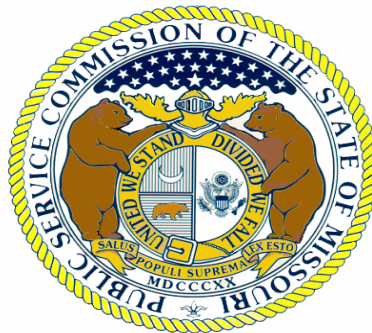


DISCLAIMER

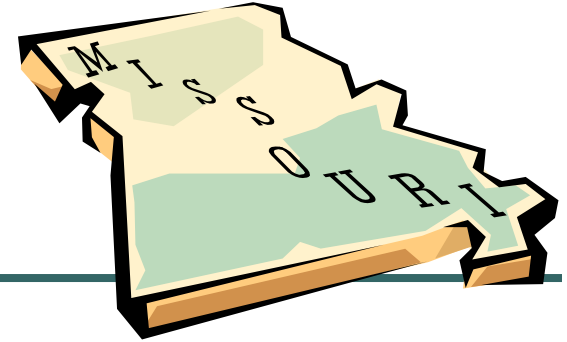
- The opinions expressed in this presentation are mine, and mine alone, and are not those of the Commission, any Commissioner (other than myself) or any member of the Staff of the Commission. Further, nothing in this presentation should be attributed to any case or matter before the Commission, to any member of the Staff of the Commission, other Commissioner or the Commission.

Overview

- Background
- HB 1779 discussion
- Final Thoughts



About The PSC



- Created in 1913
- 5 Commissioners, six-year terms
- Regulate utility rates, service and safety for investor-owned electric, gas, telecommunications, sewer and water companies
- Regulate safety issues for rural electric cooperatives and municipally-owned utilities



PSC Commissioners



Jeff Davis, Chair



Connie Murray



Robert M. Clayton, III



Terry Jarrett



Kevin Gunn

Certificated/Active Telecommunications Providers

- 115 Competitive Local Exchange Companies
- 43 Local Telephone Companies
- 403 Interexchange Companies
- 101 Private Pay Phone Providers
- 16 Shared Tenant Services Providers



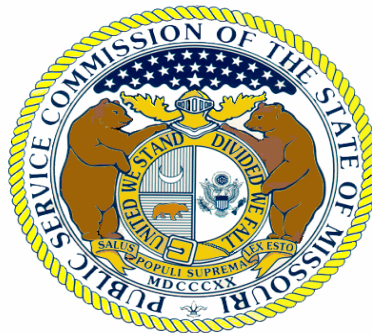
HB 1779

- Truly agreed to and finally passed on May 5, 2008
- Will be presented to Governor with other end of session bills
- Governor has 45 days after presentment to sign or veto



Summary of HB 1779

- VOIP
- Tariffs/pricing flexibility
- Price cap regulation
- Competitive status
- General Commission authority



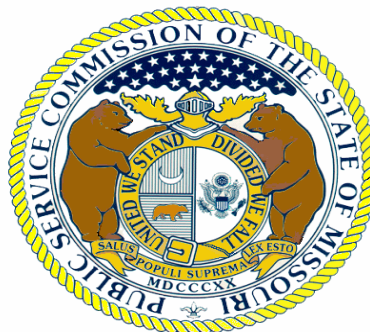
VOIP

- Defines VOIP based on FCC guidelines and specifies that interconnected VOIP service is not to be considered a telecommunications service
- Essentially deregulates VOIP service but requires VOIP providers to register with PSC



VOIP

- Requires VOIP providers to be subject to the same exchange access charges imposed on telecommunications providers
- Requires VOIP providers to charge, collect and pay the appropriate “social” fees to the Missouri Universal Service Fund, telecommunications relay services, and local enhanced 911



VOIP

- Requires VOIP providers to file annual reports with the PSC
- Requires VOIP providers to develop a process for handling customer questions and complaints



Questions/Concerns/Observations: VOIP

- Deregulates VOIP service before the Federal Communications Commission (FCC) clearly defines regulatory and jurisdictional issues pertaining to VOIP service
- The deregulation of VOIP service may deregulate phone service without ensuring the existence of competitive alternatives



Questions/Concerns/Observations: VOIP

- The deregulation of VOIP service, as provided in this bill, may make it difficult for consumers to have complaints addressed.
- The bill mandates the collection and remission of local enhanced 9-1-1 fees without mandating the VOIP provider make 9-1-1 access available to end users



Tariffs/Pricing Flexibility

- Eliminates rate regulation of any retail business service regardless of competitive status
- Allows “informational” tariff filings for packaged telecom services and shortens the time frame for such filings. (one-day to introduce or change a package/ 10-days to eliminate a package)



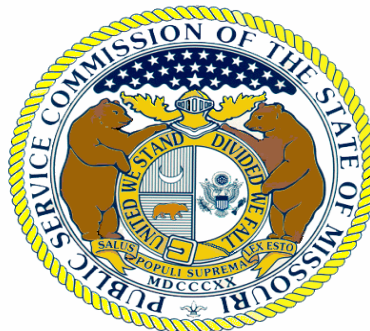
Questions/Concerns/Observations: Tariff/Pricing Flexibility

- The bill eliminates rate regulation of all retail business services without ensuring the existence of any competitive alternatives
- By allowing changes to be made to a package of telecom services on one-day's notice, it appears customers will not be notified at least ten days in advance of rate increases to a package as required by Section 392.500



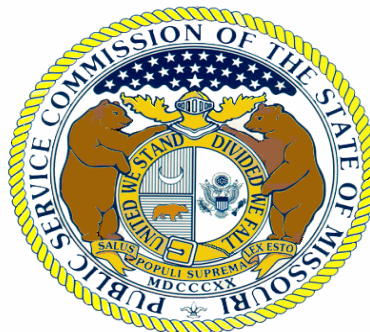
Price Cap Regulation

- Eases price cap qualification criteria by allowing an ILEC to qualify for price cap regulation if a VoIP provider provides service anywhere in the ILEC's territory
- Allows an ILEC to change price cap regulated rates in 10 days rather than 30 days



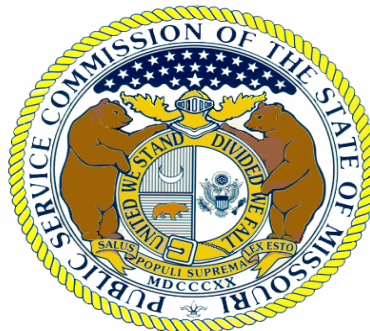
Price Cap Regulation

- Annual price cap rate adjustments will be based on CPI or set the maximum allowable rate for basic service in non-competitive exchanges at a level not to exceed the statewide average for basic local service in the company's competitive exchanges
- Allows rate rebalancing beyond four years; plus a company doesn't have to immediately rebalance upon gaining price cap status



Price Cap Regulation

- Only requires a company to reduce intraLATA interexchange telecommunications service rates the first year it rebalances rates
- Eliminates the 5% price increase limit for non-basic telecom service rates



Questions/Concerns/Observations: Price Cap Regulation

- Rates for basic service can increase by larger margins than under current regulation
 - Traditionally, the CPI-TS (Consumer price index for telecommunications services) has increased by smaller percentages than the CPI generally
 - Companies can increase rates for basic services in competitive exchanges as the market allows. Under the bill, the maximum allowable price could be increased to the average of competitive rates instead of being limited by an index such as the CPI-TS or CPI



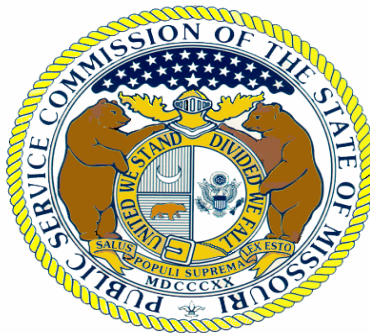
Questions/Concerns/Observations: Price Cap Regulation

- Non-basic telecom service rates for a price cap regulated company appear to be deregulated without ensuring competitive alternatives exist
- The 5% price increase limit for non-basic telecom service rates was reduced from 8% to 5% in 2005 under Senate Bill 237



Competitive Status

- Makes it easier for ILEC's to qualify for competitive status in exchanges
 - No longer requires a determination that competition exists for residential and business services, but only requires a determination that 2 entities are providing service to business OR residential customers



Competitive Status

- Makes it easier for ILEC's to qualify for competitive status in exchanges
 - The criteria for achieving competitive status under the 30-day proceeding is expanded to include the existence of a VoIP service provider to be qualifying criteria
 - Eliminates the criteria under the 60-day proceeding for the Missouri PSC to analyze whether such competitive classification is contrary to the public interest



Competitive Status

- Makes it easier for ILEC's to qualify for competitive status in exchanges
 - If a wireless carrier cannot designate business versus residential customers then the wireless carrier will be deemed to be providing service to both



Competitive Status

- If 55% or more of an ILEC's lines are declared competitive then the ILEC shall be declared a competitive company and no longer be subject to price cap regulation (except basic rates in “non-competitive” exchanges can be no higher than the statewide average rate the ILEC charges in competitive exchanges for four years. In addition, cannot increase residential basic local rates by more than \$2.50 per line per year.)



Competitive Status

- An ILEC shall only be subject to the FCC's consumer protection laws regarding quality of service and billing standards upon being designated a competitive company
- A price cap company may request a service, or the company, to be classified as competitive. Removes authority of public counsel and Missouri PSC to initiate classification proceedings



Competitive Status

- An ILEC may be declared a competitive company if a majority of its services have competitive classification. (*Current law requires all of a company's services to be competitive.*)
- Declares intrastate operator and directory services, including directory assistance services as competitive for all companies



Competitive Status

- Authorizes Commission to promulgate emergency rules if it determines that emergency exists that impacts public safety or is essential for the protection of a majority of customers of all local exchange telecommunications companies operating in this state



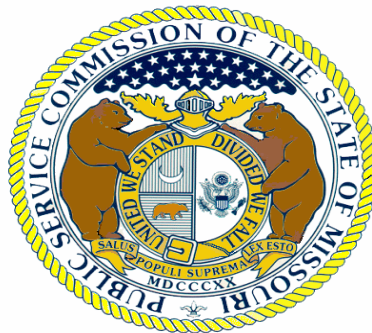
Questions/Concerns/Observations: Competitive Status

- Competitive classification means a company has complete pricing flexibility; however the bill expands this understanding by eliminating the application of Commission rules pertaining to quality of service and billing standards



Questions/Concerns/Observations: Competitive Status

- Competitive classification may be granted in some exchanges without ensuring the existence of competitive alternatives



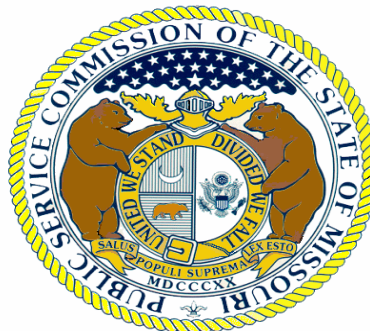
Questions/Concerns/Observations: Competitive Status

- AT&T, Embarq, and CenturyTel already meet the 55% criteria and therefore can immediately be declared competitive telecommunications companies. It is likely that most, if not all, small LECs will soon qualify as competitive telecommunications companies due to the broad definition of VOIP
- Quality of service may decline in exchanges lacking competitive alternatives



Questions/Concerns/Observations: Competitive Status

- Unclear what authority, if any, the Commission will have to receive, investigate and correct quality of service and billing issues relating to customer complaints



Questions/Concerns/Observations: Competitive Status

- The bill does not ensure competitive alternatives exist for operator services, directory services and directory assistance services
- Removes the extra compliance steps for a CLEC to provide basic local service in a small ILEC's territory



General Commission Authority

- Decreases the time periods the Commission can suspend a proposal to:
 - Introduce a new telecom service-30 days rather than the current 60 days.
 - Increase rates for a large telecommunications company - 150 days rather than the current 120 days plus 6 months.
- Removes the public interest standard as review criteria from several of the Commission's statutory provisions



Questions/Concerns/Observations: General Commission Authority

- Subjects telephone companies only to the FCC “consumer protection laws” regarding service quality and billing standards but the FCC does not have any quality of service standards and the FCC has only minimal billing standards as these activities have historically been left to state commissions
- Unclear what authority, if any, the Commission will have to hear and resolve customer complaints



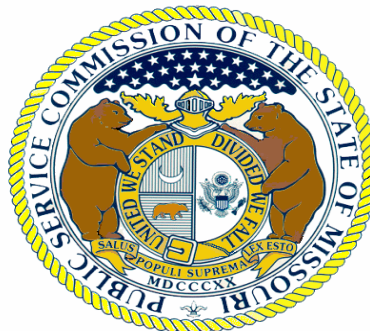
Questions/Concerns/Observations: General Commission Authority

- It is unclear if the proposed legislative changes will impact existing enabling statutes, such as Section 392.250, which authorizes the Commission to order changes in telecommunications facilities



Final Thoughts

- HB 1779 further deregulates telecommunications services in Missouri
 - Opportunities and problems: Transitioning from regulatory environment to market-based environment
- Rules changes



Questions?



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